

RECONCILIATION

TECHNICAL INFORMATION FOR PRE-ASSESSMENT SURVEY (TIPS)

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RECONCILIATION

TECHNICAL INFORMATION FOR PRE-ASSESSMENT SURVEY (TIPS)

PART 1 BACKGROUND

The purpose of this document is to provide guidance in performing a PAS of the company's internal control for the Automated Commercial System (ACS) Reconciliation Prototype procedures.

Generally Accepted Government Auditing Standards require the PAS team to obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing, and extent of tests to be performed.

The guidelines and the terms in this technical guide are based on the *Assessing Internal Controls in Performance Audits*, GAO/OP-4.1.4, published by the United States General Accounting Office, Office of Policy, September 1990; and American Institute of Certified Public Accountant's *Statement on Auditing Standards No. 78*.

PART 2 RECONCILIATION GUIDANCE

Title VI of the North American Free Trade Agreement Implement Act (NAFTA) contains provisions pertaining to Customs Modernization. Subtitle B of Title VI establishes the National Customs Automation Program (NCAP), which is an automated and electronic system for processing commercial importations. 19 CFR Section 101.9(b) provides to Customs the authority to develop an experimental procedure to streamline commercial importations. The ACS Reconciliation Prototype is a test established pursuant to these regulations. Any party who elects to reconcile entries pursuant to 19 U.S.C. Section 1484(b) must do so through this prototype.

The ACS Reconciliation Prototype procedures were published in the Federal Register dated February 6, 1998 under the title "Revised National Customs Automation Program Test Regarding Reconciliation." They were also published in Customs Bulletin and Decisions Vol. 32, No. 7", dated February 18, 1998. The ACS Reconciliation Prototype Operations Guide, Version 2.0 was published in February 2000. The extension of the Reconciliation Prototype was announced in the Federal Register, dated September 7, 2000.

Reconciliation is the process by which an importer notifies Customs of undeterminable information for post-entry adjustment, and by which the outstanding information is provided to Customs at a later date. Under Reconciliation, the importer is not disclosing a violation, but rather identifying information that is undeterminable and will be provided at a later date. Auditors should be aware of the distinction between a prior disclosure and a Reconciliation entry. A prior disclosure exists when a person concerned discloses the circumstances of a violation pursuant to the Customs Regulations. The person disclosing this information must do so before, or without knowledge of a formal investigation of that violation.

Reconciliation includes entry types for Consumption with entry codes "01", "02 and "06". Type "06" (Consumption - Foreign Trade Zone) entries are allowed only when no Antidumping/Countervailing duty merchandise is included. In addition, if an FTZ entry has NAFTA issues, the importer must ensure that the product underwent no additional processing to make it qualify for NAFTA. The product must have qualified for NAFTA in the same condition as it entered the FTZ.

The importers also retain the right to request extension of liquidation of entry summaries as outlined in 19 CFR 159.12(a)(ii).

Invaluable information is contained in the ACS Reconciliation Prototype Handbook Version 3.0 published March 02, 2002 that is available on the Customs web site at www.Customs.gov/recon.

The ACS Reconciliation Prototype will allow only the following issues to be flagged for Reconciliation.

1. Value – all value issues.
2. HTSUS heading 9802 – The issue is limited to value – e.g., reconciling the estimated to actual costs.
3. NAFTA – NAFTA eligibility can be established after entry by flagging the entry summary for NAFTA. Reconciliations are subject to the obligations of a valid Certificate of Origin at the time of making a NAFTA claim. Presentation of the NAFTA Certificate of Origin is waived for the purposes of this prototype, but the filer must retain this document, which shall be provided to Customs upon request.
4. Classification – Classification issues will be eligible for Reconciliation only when issues have been formally established as the subject of a pending administrative ruling (including pre-classification rulings), protest, or court action.

The underlying entries may be filed at any appropriate port; however, the Reconciliation and supporting documentation must be timely filed to the importer's assigned port. For purposes of the Reconciliation filing at the processing port, the broker permit requirements are waived. If a Reconciliation claim is not filed by the appropriate deadline and at the appropriate port, it will be handled as a liquidated damage claim for "no file."

One surety (signed bond rider) and one continuous bond must cover all underlying entries subject to Reconciliation. Termination of the continuous bond either by Customs, the bond principal, or surety will result in the deactivation of the Reconciliation and additions of further underlying entries until the company notifies Reconciliation Headquarters Officials of the change in bond status.

The importer must submit a "Notice of Intent" which identifies an undeterminable issue that would be resolved by the Reconciliation procedures. The liability for the identified issue is transferred to the Reconciliation, which permits the liquidation of the underlying entry summary as to all issues other than those that are transferred to the Reconciliation. The importer remains responsible for filing Reconciliation entries and remains liable for any duties, taxes, and fees resulting from the filing and/or liquidation of the Reconciliation. The importer may "flag" the underlying entry via ABI indicator, and this serves as the "Notice of Intent". If the importer has a majority of their entries flagged they may send in a "Notice of Intent" stating the period of coverage. Customs will automatically apply the blanket flag to all entry summaries filed by the importer during the specified time period.

The Reconciliation entry will have an entry type of "09" (Reconciliation). This entry must be submitted within 15 months of the date of oldest entry summary flagged for and grouped on the Reconciliation being filed. Transmission of a NAFTA Reconciliation must occur within 12 months of the date of importation of the oldest entry summary flagged for and grouped on the Reconciliation being filed.

Reconciliation entries can be filed on an entry by entry or aggregate basis.

Reconciliation entries may directly affect other audit issues (i.e. 9802).

One reconciliation entry can have as many as 9,999 underlying entries.

Even though an importer may flag up to four issues at once on a given entry summary, a maximum of two reconciliations may be filed covering the same entry summary.

If NAFTA has been flagged, it must be filed by itself.

Issues that are known at the time of entry such as freight and insurance are not reconcilable.

Issues of admissibility are not allowed.

Quantity is not a reconcilable issue since it directly affects admissibility.

An individual flag will override a blanket flag, canceling the blanket flag for that specific entry. Therefore, if an issue initially covered by the blanket flag is still to be reconciled it must be flagged again in the individual flag.

A reconciliation entry must be filed for every entry that is flagged even if there are no changes.

An importer must flag everything they plan to reconcile.

An importer cannot reconcile 9802 if the merchandise was entered during the period without claiming the 9802 provision.

Drawback cannot be claimed on underlying entries until the reconciliation has been filed.

2.1 EXAMPLES OF RED FLAGS

The following examples are conditions that may indicate a potential problem with Reconciliation entries.

- Company has insufficiently documented, poorly defined, or no internal control for accurately reporting Reconciliation entries to Customs. Examples:
 - ✓ Company does not monitor or interact with the broker on Reconciliation entries;
 - ✓ Company relies on one employee to handle ACS Reconciliation Prototype issues and there are poor or no management checks or balances over this employee.
- Company's staff lacks knowledge of the ACS Reconciliation Prototype requirements.
- Company offers an unreasonable explanation or lack of response to Customs inquiries regarding their Reconciliation entries and supporting documentation.
- Company fails to cooperate with or respond to Customs inquiries regarding their Reconciliation entries and supporting documentation.
- Company has a high turnover of employees in key positions.
- Significant variance exists between the importer's Reconciliation data and Customs underlying entry data that may be related to the company's management decision to delay duty payment because of cash flow problems and not related to post-entry issues.
- Customs (e.g., import specialist, account manager, compliance measurement, prior audit) shows history of problems with the company's submissions to Customs.
- Unreasonable changes in the company's import patterns that may impact the company's Reconciliation entries.
- Large refunds requested initially by the company (until Customs has an idea of the size of refunds from a particular company).
- Company cannot identify the underlying flagged entry summaries.
- Lack of audit trail to validate the inclusion of an underlying entry summary being reconciled.
- Reconciliation submissions are not filed timely.
- Historically, company filed annual reports for tooling and/or assists and now company has flagged entries for other value adjustments.
- The company consistently files prior disclosures on Reconciliation entries.
- The company does not have procedures designed to ensure the identification of all flagged entries.
- The company has received numerous no-file penalties for not filing Reconciliations.
- The company has not been given authority to file Reconciliation entries.
- The company nets increases and decreases in the Reconciliation final adjustments.

- The company's Reconciliation submissions include issues not allowed under the Reconciliation prototype (outlined above).
- Analysis of Reconciliation entries shows an unreasonable variance from previous Reconciliation entries or other support documentation.
- Analysis of the Reconciliation entries shows inaccurate supporting documentation.
- The company always files no-change Reconciliation entries; if so, may not need to participate in Reconciliation as there is no undeterminable issue that would be resolved by the Reconciliation prototype procedures.
- The company cannot provide verification of reconciled amounts.
- The company's procedures appear inadequate or inaccurate to ensure that all required information is collected for the underlying entries and are included in the Reconciliation submission. For example, that all proceeds from the sale of imported merchandise that are dutiable on the underlying entries are included in the Reconciliation entry.
- NAFTA Reconciliation entries are rejected by Customs.
- The company, Customs or the surety has terminated the importers continuous bond.
- The company files drawback on the underlying entries before the Reconciliation is accepted by Customs
- The company uses the Reconciliation entry information on their subsequent drawback claims.
- The company is submitting disclosures to Customs on issues that should be included in the Reconciliation summary.
- Review of the company's response to the questionnaire indicates an issue that would require post-entry adjustments but the company is not filing disclosures or Reconciliations. For example, the company has dutiable proceeds that are not known at time of original entry, however, no Reconciliation entry or disclosure was submitted to Customs.
- Imports are under consignments.
- Company has multiple brokers filing reconciliation entries.

2.2 EXAMPLES OF BEST PRACTICES

- Internal controls to ensure that Reconciliations submitted to Customs are accurate and complete:
 - ✓ Are in writing;
 - ✓ Include procedures for monitoring and feedback; and
 - ✓ Were monitored by management.
- One manager is ultimately responsible for control of the import department, including oversight of Reconciliation procedures and submissions. That manager has knowledge of Customs matters and the authority to assure internal control procedures for imports are established and followed by all company departments.
- Written internal control procedures assign duties and tasks to a position rather than a person.
- Company has good interdepartmental communication about Customs matters.
- Company requests binding rulings and consults with Customs import specialists to ensure submitted Reconciliations are in compliance with Customs regulations.
- Company conducts and documents periodic reviews of entry summaries and makes corrections to entries and changes to their import operations as appropriate.
- Company requires their vendors to provide all appropriate information regarding the required post-entry adjustments listed on the Reconciliation.

- Company requires periodic training for staff responsible for Customs matters.
- The company's Import Department staff attends Customs seminars on Reconciliation and other informed compliance outreach programs.
- Company provides Reconciliation training to its agents and brokers.
- Company maintains a software application that tracks the underlying entry information and ensures all underlying entry adjustments are supported.
- Company performs a periodic review to ensure the status of its continuous bond and takes appropriate action if the bond is terminated and another bond is instated.

2.3 EXAMPLES OF DOCUMENTS AND INFORMATION TO REVIEW

- Internal control policies and procedures.
- Company's response to the questionnaire.
- Interviews with company staff concerning actual procedures and controls specific to Reconciliation procedures.
- Company's documentation that supports monitoring and verification of established and/or written internal control for the Reconciliation procedures.
- Process map flowchart and narrative.
- Directives and rulings from Office of Regulations and Rules regarding implementation of the ACS prototype for Reconciliation.
- Documentation sustaining the Reconciliations entry calculations that adjusts the underlying entries, such as:
 - ✓ Underlying entry and invoice,
 - ✓ Payment verification of imported merchandise,
 - ✓ Reconciliation entry package,
 - ✓ Documents and schedules linking the Reconciliation with underlying entries,
 - ✓ Applicable documentation that formally established the basis for flagging for a classification issue (protests, rulings, etc.),
 - ✓ NAFTA certificate of origin,
- ✓ Accounting records that substantiate the Reconciliation issues including the financial statements, post-closing trial balance, detailed chart of accounts, and general ledger detail,
- ✓ Data Loading Sheet, and
- ✓ General ledger accounts likely to contain undeclared payments and general ledger detail for those accounts (i.e. description, vendor name, amounts, and credit memos)
- CF-28s (Request for Information), CF-29 (Notice of Action) and other Customs communications with company regarding the Reconciliation entry and the underlying entries.

PART 3 RISK ASSESSMENT AND INTERNAL CONTROL GUIDANCE

PAS team judgement should be used to determine the type and amount of testing needed to evaluate how effective internal control is and whether there is sufficient risk to warrant proceeding to the Assessment Compliance Testing (ACT) process.

Using the chart and the guidelines below, determine through limited judgmental testing whether the company's internal control is effective.

To determine the extensiveness of internal control testing, it is necessary to evaluate:

1. **Risk;** and
2. The **internal control** system, by determining whether the controls are in operation, how the controls were applied, how consistently they are applied, and who applied them.

3.1 RISK

A. Preliminary Assessment of Risk

Before any audit work begins at the company the team should make a preliminary assessment of risk (PAR) using information obtained from Customs or publicly available information. The purpose of the PAR is to evaluate identified potential risks to Customs based on analytical reviews of Customs data and other Customs information. This review will identify areas of potential risk and eliminate some areas with insignificant risk. The PAR should be conducted using the form in Attachment 1 to the PAS Audit Program.

B. Evaluation of Risk Acceptability

After the audit work begins with the company the team will refine the assessment of risk. After all audit work has been completed the team will determine whether risk is acceptable or unacceptable using the PAS Audit Program as summarized in the following steps.

- Determine what activities pose a significant risk to Customs.
- Test the existence, effectiveness and implementation of internal control and determine if internal control is adequate to control risk.
- Using the results of the internal control review, develop an opinion whether risk is acceptable or unacceptable.

3.2 INTERNAL CONTROL

To evaluate the internal control system:

1. Consider the five components of internal control:
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication
 - Monitoring
2. Review relevant Customs and company documents to identify and understand internal control over ACS Reconciliation Prototype procedures. (Examples of documents and information to review are listed on prior page.)
3. Determine whether the company established and follows procedures. Review:

- Documentary evidence of the results of periodic internal control reviews/testing and corrective action implemented.
 - Documentary evidence of communication with the broker and company departments on ACS Reconciliation Prototype issues, including company testing of broker operations and verification that the broker followed company instructions.
 - Company-specific rulings and evidence that they are followed.
 - Documentary evidence of intra-company communications to ensure correct information is provided to Customs.
 - Training records and materials used to educate staff on Customs matters.
4. Review written policies and procedures and interview applicable company personnel to complete appropriate sections of the "Worksheet for Evaluating Internal Control over ACS Reconciliation Prototype Procedures."

Note: The internal control assessment should include Steps to:

- Identify and understand internal control.
- Determine what is already known about control effectiveness.
- Assess the adequacy of internal control design.
- Determine whether controls are implemented and effective.
- Determine whether transaction processes are documented.

3.3 EXTENSIVENESS OF AUDIT SAMPLE TESTS (TESTING LIMIT)

The purpose of limited PAS testing is to take a survey in order to determine the necessity for and extent of substantive tests. In some circumstances, the PAS team may decide that it probably will not be able to form an opinion based on limited PAS testing. In that case, it may be necessary to proceed immediately to the ACT process. If the PAS team believes that it can form an opinion based on limited PAS testing, it should test the appropriate number of controls and associated transactions using the table below. Tests may be appropriate for various areas within Reconciliation. For example, the company may use Reconciliation for imports from several foreign companies but testing may be necessary only for the underlying entry transactions for certain vendors.

Extensiveness of Audit Tests

PAR Level	+	Preliminary Review Internal Control	=	Extensiveness of Audit Test	Testing Limit
High		Weak Adequate Strong		High Moderate to High Low to Moderate	10-20
Moderate		Weak Adequate Strong		Moderate to High Moderate Low	5-15
Low		Weak Adequate Strong		Low to Moderate Low Very Low	1-10

Source: Adapted from *Assessing Internal Controls in Performance Audits*.

Column titled “Testing Limit” reflects Customs test sizes.

3.4 EVALUATION OF PRE-ASSESSMENT SURVEY TESTING RESULTS

The following steps are guidance for determining the effectiveness of a company’s controls over Reconciliation submissions.

1. Complete the “Worksheet for Evaluating Internal Control over ACS Reconciliation Prototype Procedures” to determine whether risk determination is acceptable or unacceptable and to document why. Put results of the Reconciliation testing in perspective and evaluate confirmed weakness as a whole. The evaluation should consider the results of the internal control testing, problems identified in the profile, and/or concerns raised by the import specialist or account manager. The team must evaluate the PAS results based on the specific situations.

Customs considers risk unacceptable when testing reveals that internal control is not sufficient or effective in providing reasonable assurance that accurate, timely and complete declarations are reported to Customs.

2. The following will assist the PAS team in determining whether conditions warrant proceeding to ACT.

Do not proceed to ACT if:

- Cost-benefit analysis warrants no further effort, (do not spend a significant amount of resources to identify a potential loss of revenue considered insignificant.) and
- The result of review indicated that the error was due to an isolated incident.
- If substantive tests necessary to determine a compliance rate or revenue loss can be performed quickly and without extensive effort, the team should immediately perform the substantive tests without proceeding to ACT.

Proceed to ACT if:

- The company does not have an adequate internal control and the review indicated a material loss of revenue that cannot be quantified without statistical sampling or further review.
- The importer will not quantify the loss of revenue.
- The company refuses to take corrective action on systemic errors and it is necessary to calculate a compliance rate to evidence significant non-compliance.

Note: If substantive tests necessary to determine a compliance rate or revenue loss can be quickly performed without extensive effort, the team should immediately perform the substantive tests without proceeding to ACT.

3. Determine whether referrals should be made for enforcement action.

3.5 EXAMPLES

The following examples of situations that might be encountered under PAS are for clarification purposes only.

Example A: Situation in which the team would not proceed to ACT (Revenue)

To determine whether Reconciliation controls were working the PAS team:

- ✓ Reviewed the profile and questionnaire,
- ✓ Reviewed written procedures, process map narrative and flowchart, and other documents,
- ✓ Concludes that the preliminary risk exposure was low.

The company's internal control manual required the import manager to maintain a record of all underlying entries for the blanket application period. The company indicated that the post-entry adjustment consisted of payments for subsequent proceeds to four foreign vendors. The amount of the proceeds is calculated at 10% of the resale price.

The internal control procedures show how the Import Department calculates these post-entry adjustments to be included in the six-month Reconciliation entry. Every six-months the Import Department is provided a report from the sales department stating the quantity of each of the relevant items sold each month and the standard sale prices for the period. The Import Department calculates the proceeds amount as the percentage of the sale value as listed in the agreement and total standard sale prices (standard sale price x quantity sold). The team concluded the internal control system related to the Reconciliation procedures were moderate because there was no indication of how the standard sale price was established in the company's documentation. There were no procedures in place to adjust the amounts from the calculation using standard price to the actual proceeds paid to the vendors.

Using the table above (based on low risk exposure and moderate preliminary internal control evaluation), the team concluded that they would test 10 sale invoices of the items to determine whether the items were sold at the standard price. The team determined that 4 of the 10 invoices were sold at higher than the annual standard price and 2 were sold below the standard price.

In discussion with the sales department regarding these discrepancies, it was determined that each salesman has the authority to negotiate each sale and to adjust the standard price according to quantity sold, inventory excess or shortage, and other valid business concerns. The standard price list given to the Import Department is a computer-generated calculation showing the average selling price of each item for the prior month. As each sales invoice is entered into the system, the standard sales price is automatically adjusted to reflect the average sales price for each of the items sold. Even though the company uses a price list, the amounts listed in the computer file are based on the actual sales prices as negotiated by the sales department personnel.

The PAS review determined that the Import Department has online access to the sales price list as described above even though the internal control procedures indicate that they get a semi-annual sale price list, which was provided to the PAS team. At time of the post-entry adjustment, the Import Department determines the post-entry adjustment amount by searching for the imported item in the sale price computer file that shows the average sale price. They calculate the post-entry adjustment as:

- Average sale price per unit x imported quantity from the foreign vendor x percentage of proceeds listed in the vendor agreements.

This calculation is also outlined in the vendor agreements and is used by the accounting department to determine the actual proceed payments to the vendors.

As a result of this review, the PAS team informed the Import Department that the internal control procedures did not reflect the actual procedures they used to calculate the proceeds amounts. The Import Department provided the PAS team with an update of the internal control procedures showing their actual calculations of the proceed amount. The PAS team determined that they do not need to proceed to an ACT as the Reconciliation entries would accurately reflect the required post-entry adjustment to the company's underlying entries regarding proceeds paid to a foreign vendor.

Example B: Situation in which the team would not proceed to ACT (Compliance)

An importer submits 9802 entries to Customs from a wholly owned vendor in Mexico. The products are assembled in Mexico and returned to the importer with the reported standard costs determined by the importer annually. The questionnaire shows that 99.9% of the assembled products at the plant in Mexico are returned to the importer. Every six months the importer submits a blanket Reconciliation entry for the post-entry adjustment that converts the standard costs to the actual costs of the imported items. The Import Department calculates these post-entry adjustments based on accounting records showing the total amount paid for the imported items from the assembly plant and the total value reported to Customs on the underlying entries.

To determine whether these controls were working, the PAS team:

- ✓ Interviewed the company's import Department personnel,
- ✓ Performed a macro test on two post-entry adjustments.

The PAS team determined that the preliminary internal control review indicated moderate risk. The 10 invoices should be traced to the post-entry adjustment to determine whether the adjustment accurately reflected the conversion of standard to actual cost.

The PAS team reviewed the accounting system to determine how the standard costs were established and how the differences between the standard and actual are recorded in the accounting system. The review determined that the adjustments were made in compliance with Generally Accepted Accounting Principles (GAAP). The PAS review also verified that these appropriate adjustments were used to create the post-entry adjustments on the company's underlying entries. The PAS review of the 10 entries indicated that all 10 were included in the 6-month accurate post-entry adjustments submitted to Customs on the blanket Reconciliation entry. The PAS team determined that they do not need to proceed to the ACT phase, as the Reconciliation entries would accurately reflect the required post-entry adjustment to the company's underlying entries.

Example C: Situation in which the team would proceed to ACT (Revenue)

Same situation as above in Example A, however, the Import Department did not have access to the actual sale price file. They were provided a yearly price list based on standard sales price, which was the December 31 average sale price. December was a slow period and the salesmen were providing deep discounts to their customers due to high inventory and overall unstable economic conditions. Additionally, the Import Department was not aware of the negotiation authority of each salesman. Based on this preliminary review, the team determined 10 entries should be reviewed.

The PAS team was provided a copy of the proceeds agreements between the company and the four foreign vendors. The agreements include provisions on the calculation of the proceeds amount. The proceeds calculation is the same as listed above, with the specification that the computer sale price file showing the average sale price for the item would be the average sale price for date of the sale invoice for the item.

The PAS team recalculated the 10 entry invoices based on the agreements and found that six of the entries showed lower proceeds amounts than the company paid to the vendor.

The PAS team discussed the issue with the company representative the requirement for the actual proceeds payments to be included in the Reconciliation entries. The company management reviewed the internal control of the company and reviewed the procedure that the Import Department received the annual sale price list. They informed the Import Department that they were in compliance with the internal control procedures therefore there was no need for additional information. The sales department management considers the database as an internal and confidential record of the sales department and it was not available to the Import Department.

Since the company will not change its internal control to allow the Import Department to use actual proceed payments in their post-entry adjustments on the Reconciliation and the level of compliance is unknown, the PAS team proceeds to ACT to use statistical sampling to project the revenue loss.

Example D: Situation where the team would proceed to ACT (Compliance)

Same situation as above in Example B, however, the accounting department received a weekly statement from the Mexican assembler showing the operating costs that should be paid the following week. The accounting department sends a check to the assembler to cover these costs, which include labor, direct and indirect material costs. The payment from the US parent company is deposited in the assembler cash account and the assembler uses this cash account to fund payroll and various other account payable transactions of the assembling plant related to the assembly process.

The PAS team discussions with the Import Department indicates they were unaware of the accounting department's weekly payment. They indicated that the invoices from the assembler for the imported merchandise were sent to the accounting department for payment. They referred to the above limited review. The Import Department told the auditors that during the Reconciliation period, they received the accounts payable report showing the list of invoices and the amounts paid to the assembler. The Import Department used this report to calculate the post-entry adjustments listed on the Reconciliation entry. The weekly cash payments made by the accounting department to the assembler were not reflected in the Reconciliation entry.

The PAS team discussed the issue with the accounting personal who made the weekly payments. They stated that the payments were not related to any importation and was not within the scope of the Customs review. To prove their point, the accounting department provided to the PAS team the weekly request from the assembler showing that the payments were for manufacturing costs and not related to the assembler invoices for the assembler cost on 9802 merchandise. The PAS team asked the company's Customs Department to provide to them a list of all of the weekly payments to the assembler. The accounting department again refused to provide the list as they considered the information outside the scope of the PAS review.

The PAS team will proceed to ACT to quantify the amount of money that was paid to the assembler that was not reported on the underlying entries or the Reconciliation entry.

PART 4 WORKSHEET FOR EVALUATING INTERNAL CONTROL (WEIC) – RECONCILIATION

PURPOSE: To determine whether Reconciliation risk is acceptable.

The completion of this worksheet provides evidence that the five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communications, and Monitoring were evaluated.

During this phase of the process, an internal control review will be completed and factors for internal control related to an assessment of Risk Exposure including Internal Control Red Flags, Susceptibility, Management Support and Competent Personnel will be considered. The completion of this worksheet provides evidence that these factors were evaluated.

All answers must be linked to supporting documentation.

OBJECTIVES:

Section 1 - Internal Control Questions	Consolidate information learned about internal control through interviews and document reviews to form a preliminary assessment of internal control before testing. For work paper reference column titled "Is Implementation of Control Supported by Documentation and/or Interviews," confirm that the control is implemented through: <ul style="list-style-type: none"> • Interviews and requesting evidence from the company and • Reviews of documents that provide evidence that the company completed the activity.
Section 2 - Preliminary Internal Control Assessment	Use information consolidated in Section 1 to make a preliminary assessment whether internal control is strong, adequate, weak or nonexistent.
Section 3 - Sample sizes	Use the Preliminary Assessment of Risk (PAR) Level and the Preliminary Internal Control Assessment to determine the sample size for each sample.
Section 4 - Results of Sample Testing	Use information in Section 4 to record the results of PAS testing to evaluate whether internal control is effective to provide reasonable assurance of compliance.
Section 5 - Risk Opinion	Use information in section 1-4 to record the PAS opinion that risk is acceptable or unacceptable

Section 1 – Internal Control Questions

No.	Internal Control (IC)	Yes	No	Work Paper Reference		Comments
				IC Manual Page Number	Is Implementation of Control Supported by Documentation and/or Interviews?	
	Overall Control					
1.	Are internal controls for Reconciliation procedures formally documented?					
2.	Are written policies and procedures approved by management?					
3.	Are written policies and procedures reviewed and updated periodically?					
4.	Is one manager responsible for control of the import department, including Reconciliation?					
5.	Does that manager have knowledge of Customs matters and the authority to ensure internal control procedures for imports are established and followed by all company departments?					
6.	Do written internal control procedures assign Reconciliation tasks to a position rather than a person?					

No.	Internal Control (IC)	Yes	No	Work Paper Reference		Comments
				IC Manual Page Number	Is Implementation of Control Supported by Documentation and/or Interviews?	
7.	Does the company have good interdepartmental communication regarding the post-entry adjustments that must be submitted to Customs on the Reconciliation entry?					
8.	Does the company conduct and document periodic reviews of Reconciliation entries?					
9.	Do internal controls involve a verification process to determine that the post-entry adjustments are qualified for Reconciliation procedures?					
10.	Do written procedures appear adequate?					
11.	Are the records necessary to test the reconciliation entries readily available?					
12.	Do purchasing, engineering, other departments and suppliers provide adequate information to the Customs Department and/or broker to ensure the correct post-entry adjustments are listed on the Reconciliation entries?					

No.	Internal Control (IC)	Yes	No	Work Paper Reference		Comments
				IC Manual Page Number	Is Implementation of Control Supported by Documentation and/or Interviews?	
13.	Does the importer maintain a database or table listing the underlying entries to ensure that all entries with necessary post-entry adjustments are included in the Reconciliation entries?					
14.	Does the company perform an annual review of the post-entry changes listed in the Reconciliation entries?					
15.	Is responsibility for the reconciliation eligibility process assigned to one knowledgeable individual or department with management oversight?					
	Entry Review					
16.	Does the company review entries to verify that the Reconciliation entries are correct?					
17.	Does the company monitor the entry review process to verify that the internal controls are followed?					
18.	Does the individual reviewing the Reconciliation entries have adequate knowledge and training of ACS Reconciliation Prototype procedures?					

No.	Internal Control (IC)	Yes	No	Work Paper Reference		Comments
				IC Manual Page Number	Is Implementation of Control Supported by Documentation and/or Interviews?	
	Broker Review					
19.	Does the company monitor the Reconciliation entries that the broker submits to Customs?					
20.	Do procedures ensure that the broker has all information required for the post-entry adjustments listed on the Reconciliation entries?					
21.	Does the company have adequate broker oversight?					
22.	Does the company identify, analyze, and manage risks related to reconciliation?					
23.	Has the company identified any risks related to reconciliation and implemented control mechanisms?					
24.	Does the company have adequate internal control to address specific issues identified in the profile?					
25.	List company-specific procedures and controls below (if applicable)					

Section 2 - Preliminary Internal Control Assessment

Use information obtained in section 1 above to make a preliminary assessment of internal control as strong, adequate, weak, or nonexistent.

	Strong	Adequate	Weak	None*
Internal Control				

* If the team concludes that the company does not have internal control, risk is not acceptable so proceed to Section 5 below.

Section 3 – Sample Sizes

Use the matrix for determining Extensiveness of Audit Tests in section 3.3 of TIPS to determine the extensiveness of audit tests to confirm that internal control is effective. Multiple samples are possible. Samples and sample items should concentrate on risk.

Sample Area	PAR Level (High, Moderate, or Low)	Internal Control Level (Weak, Adequate, or Strong) From Section 2 Above	Testing Limit (1-20)

Section 4 - Results of Sample Testing

Use the results of sample testing to determine if internal control is effective.

Results of Testing	Yes or No
Is IC effective to provide reasonable assurance to preclude significant risk?	

Section 5 - Risk Opinion

Use the information developed in Sections 1-4 to record the PAS opinion that risk is acceptable or unacceptable.

Risk Opinion	Yes or No	Comments
Acceptable		

If risk is not acceptable the audit team may need to proceed to ACT or have company do quantification.